

**Management Advisory Report: The Estimated
Cost of the Internal Revenue Service's
Toll-Free Telephone Service Exceeds
\$600 Million**

August 2001

Reference Number: 2001-30-139

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 22, 2001

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Estimated Cost of the
Internal Revenue Service's Toll-Free Telephone Service
Exceeds \$600 Million

This management advisory report presents the results of our review of the estimated cost of the Internal Revenue Service's (IRS) toll-free telephone service. The review was performed between December 2000 and July 2001 as part of our ongoing coverage of the IRS' toll-free telephone operations.¹ The intent of our estimate is to provide the IRS with information that is not readily available through the current financial system.

Summary

The Office of Management and Budget's "Managerial Cost Accounting Concepts and Standards for the Federal Government"² requires agencies to determine the full costs of their services. The General Accounting Office has reported that the IRS' financial system does not have this capability.³ Therefore, we attempted to identify material costs from the IRS' major organizational units that, when added together, approximate the full cost of toll-free telephone service. We estimate that the full cost of the IRS' toll-free telephone service⁴ in FY 2001 will be at least \$627 million.

Without full cost information for toll-free telephone service, Executive Branch decision-makers (including IRS managers), the Congress, and the IRS Oversight Board do not have sufficient information to make decisions about allocating resources, evaluating and improving program performance and comparing alternative courses of action. In

¹ See Appendix IV, Recent TIGTA Reports Related to Toll-Free Telephone Operations.

² Statement of Federal Financial Accounting Standards Number 4, July 31, 1995.

³ *Financial Accounting: IRS' Fiscal Year 2000 Financial Statement*, March 2001, GAO-01-394.

⁴ See Appendix VI, Glossary of Terms, for a list of the toll-free telephone numbers included in our review.

addition, the taxpaying public does not have sufficient information to determine whether the value of the service is at least equal to the cost.

The IRS has an initiative underway to improve financial management. Independent from our review, the IRS initiated action to obtain a new financial system that will track program costs.

Since we are making no recommendations, a response to this report was not required. However, the IRS' Acting Director, Financial Analysis, reviewed a draft version of the report and concurred with our results. Copies of this report are also being sent to IRS officials who are affected by the report.

Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs) at (202) 622-3837.

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Background

The Internal Revenue Service's (IRS) toll-free telephone system is the cornerstone of its customer service operations. Taxpayers call most frequently about (1) tax law, (2) tax refunds and the Earned Income Credit, and (3) notices, letters, or bills received from the IRS.¹

The IRS estimates that it will answer 100 million calls in Fiscal Year (FY) 2001. The IRS handles the calls at 28 facilities throughout the United States and at 1 facility in Puerto Rico. During the individual income tax filing season, there are over 10,000 IRS employees answering calls.²

Cost is a basic building block that the taxpaying public can use to determine whether the value of the service is at least equal to the cost. Statutes, such as the Chief Financial Officers Act of 1990,³ the Government Performance and Results Act of 1993,⁴ the Government Management Reform Act of 1994,⁵ and the Federal Financial Management Improvement Act of 1996⁶ require the government to produce meaningful financial information as a vital tool for effective management.

The President, in his FY 2001 budget message, has proposed new legislation to improve the reporting of program costs. Moreover, both the Congress and the General Accounting Office (GAO) have emphasized the importance of having program cost data.⁷

We performed our review at the IRS' National Headquarters and the Headquarters Offices of: Agency-Wide Shared Services (AWSS); Modernization and Information Technology Services (MITS); the Small Business/Self-Employed (SB/SE) Division; and the Wage and Investment

¹ See Appendix VI, Glossary of Terms, for a list of the toll-free telephone numbers included in our review.

² The filing season is the January to April period during which most individual taxpayers file their tax returns.

³ Pub. L. No. 101-576, 104 Stat. 2838.

⁴ Pub. L. No. 103-62, 107 Stat. 285.

⁵ Pub. L. No. 103-356, 108 Stat. 3410.

⁶ Pub. L. No. 104-208, 110 Stat. 3009.

⁷ See Appendix V, Statutes and Federal Directives Affecting Government Financial Systems.

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(W&I) Division. We also visited IRS offices in Cincinnati, OH, New Carrollton, MD, and Philadelphia, PA. We performed our review between December 2000 and July 2001 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

We relied on financial data provided by the IRS to develop our estimate of the full cost of toll-free telephone service.⁸ We did not audit and do not express an opinion on the accuracy and reliability of the data. However, we discussed with IRS officials cost data that appeared to be unreasonable, was inconsistent with other data, or was unclear. The review neither evaluated the IRS' financial systems nor compared the IRS' cost with other government or private sector toll-free telephone operation costs.

A constraint was imposed on our review by a data limitation. The IRS was unable to provide certain data because of the limitations of its financial system, as described on pages 3 and 12. Consequently, the potential exists that the estimate of toll-free telephone costs may be understated.

The details of our objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II. In addition, we have included a Glossary of Terms as Appendix VI.

The Internal Revenue Service's Toll-Free Telephone Service Will Cost an Estimated \$627 Million in Fiscal Year 2001

Based on the information IRS provided, we estimate that toll-free telephone service for questions about tax law; tax refunds and the Earned Income Credit; and notices, letters, and bills, will cost at least \$627 million in FY 2001. The IRS estimate of 100 million calls answered in FY 2001 includes 68 million calls handled by an automated system and 32 million calls handled by Customer Service Representatives.

The GAO reported that the IRS' financial system does not meet government accounting requirements because it does not have the capability of calculating "the full cost of the

⁸ See Appendix VI – Glossary of Terms.

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IRS' activities."⁹ The Government Performance and Results Act of 1993 (GPRA) intends that cost is to be used as an indicator of performance.¹⁰ Also, a government accounting standard requires agencies to determine the full costs of government goods and services.¹¹

Full cost information is not readily available because the IRS uses a "traditional" financial system

Many federal agencies, including the IRS, do not have the systems and processes required to produce meaningful financial information. The IRS uses a "traditional" financial system. This type of system is structured around organizational units and provides a line by line accounting of the costs by organizational unit. Examples of these line costs are labor, travel, and training.

While a traditional system is useful for tracking costs for an organizational unit, they are not structured around processes. "Usually, they are structured around organizational units such as departments instead of process, which transcend departmental boundaries. In other words, they ignore or downplay cross-functional relationships."¹² Assigning costs to a process is also difficult because some costs cannot be assigned exclusively to any particular process. These costs are referred to as "overhead."

Despite these limitations, a reasonable cost estimate for toll-free telephone services can be made.

⁹ *Financial Accounting: IRS' Fiscal Year 2000 Financial Statement*, March 2001, GAO-01-394.

¹⁰ The IRS has four GPRA indicators for toll-free telephone service: quality of calls, quantity of calls, customer satisfaction, and employee satisfaction.

¹¹ Office of Management and Budget's *Managerial Cost Accounting Concepts and Standards for the Federal Government*, Statement of Federal Financial Accounting Standards Number 4, July 31, 1995.

¹² Kehoe, J. et al., *Activity-Based Management in Government* (Washington: Coopers & Lybrand L.L.P., 1995), 46.

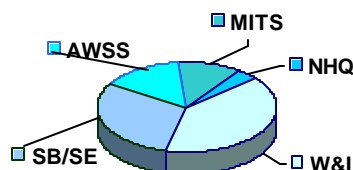
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Toll-free telephone service costs can be estimated by analyzing costs for five IRS organizational units

The toll-free telephone process and related overhead costs cross the boundaries of five IRS organizational units: the W&I Division; the SB/SE Division; the MITS; the AWSS; and the National Headquarters (NHQ).

When each organizational unit's toll-free cost is combined, the boundaries become less important, as illustrated in Figure 1.

Figure 1: Combining the Five IRS Organizational Units to which Costs are Assigned



Source: *The IRS and Treasury Inspector General for Tax Administration (TIGTA)*.

When the boundaries are not considered, a full cost estimate for the toll-free process can be derived. Of the five IRS organizational units to which costs can be assigned¹³ for toll-free telephone service, three have costs that can be predominately traced to the toll-free operation.

- The W&I Division serves approximately 116 million taxpayers, including those who file jointly, with wage and investment income only. The W&I Division provides staffing for answering telephone calls received on the toll-free lines and coordinates overall IRS toll-free service. We estimate that \$251 million of the

¹³ Cost assignment is a process that associates costs with activities. There were two methods of cost assignment used to develop the estimate: (1) tracing costs wherever economically feasible, and when tracing was not possible, (2) allocating costs on a reasonable and consistent basis. See Appendix VI, Glossary of Terms, for a detailed explanation of assignment, tracing, and allocating.

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total W&I Division's costs can be assigned to toll-free telephone service.¹⁴

- The SB/SE Division serves approximately 45 million taxpayers that are fully or partially self-employed individuals and small businesses. Like the W&I Division, the SB/SE Division provides staffing for answering toll-free telephone calls. The SB/SE Division also provides staffing for answering questions that are considered too complex for a response at the time a call is received. We estimate that \$187 million of the total SB/SE Division's costs can be assigned to toll-free telephone service.¹⁵
- The MITS is the IRS' principal point of reference for information systems resources. The MITS' Information Technology Services component assists the toll-free telephone system in ways such as providing for the automated voice responses that taxpayers receive when calling the toll-free telephone numbers, routing the calls to the proper location, and, once received at that location, distributing calls to a Customer Service Representative. The MITS' Business System Modernization (BSM) Office plans, acquires, deploys, and transitions modernized business systems to meet the IRS' business needs. For example, the BSM Office provides these services for the Customer Communications Project 2001.¹⁶ We estimate that, at a minimum, \$73 million of the total MITS' costs can be assigned to toll-free telephone service.

¹⁴ The W&I Division also receives calls on behalf of two IRS organizational units: Criminal Investigation (CI) and the National Taxpayer Advocate (NTA). The cost of these calls is included in our estimate. W&I Division management indicated that these costs are not material.

¹⁵ The SB/SE Division also receives calls on behalf of CI and the NTA. The cost of these calls is included in our estimate. SB/SE Division management indicated that these costs are not material.

¹⁶ The Customer Communications Project 2001 provides enhancements to the telephone infrastructure, such as upgrades in the method of distributing calls to assistors.

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The two remaining organizational units have costs that can be considered “overhead.” While these costs generally cannot be traced directly to toll-free service, a portion of these costs can be allocated to toll-free telephone service.

- The AWSS delivers certain services used throughout the IRS. Examples of these services include handling personnel actions, obtaining goods and services, and managing real estate and facilities. We estimate that \$91 million of the total AWSS’ costs can be assigned to toll-free telephone service.
- The NHQ provides executive direction to national programs, and national leadership and oversight to field offices. It sets program policy, provides assistance, and evaluates programs. For example, the NHQ includes the Offices of the Commissioner, the Chief Financial Officer, and Strategic Human Resources. We estimate that \$25 million of the total NHQ’s costs can be assigned to toll-free telephone service.

Full cost information could assist with decision-making

In 1993, the President issued Executive Order 12862, which stated that the Federal Government must be customer-driven and established the standard for the quality of services as “Customer service equal to the best in business.” The IRS Commissioner testified before the Congress in April 2001, stating that while he was encouraged by the upward trend in toll-free telephone service, the current level of service is “unacceptable.”

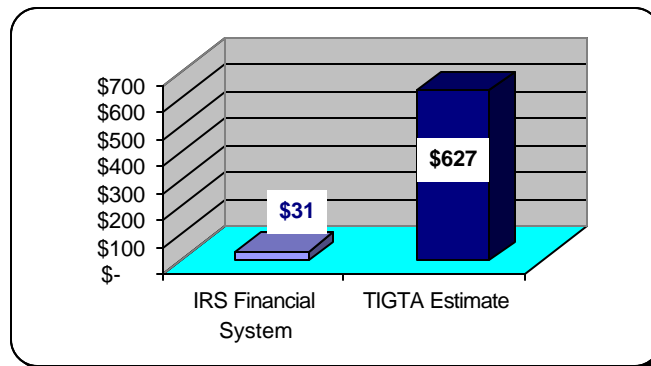
The constraints of the IRS’ financial system impede the IRS from recognizing and communicating the full cost of toll-free services and, therefore, may affect the IRS’ ability to consider the costs / benefits of improving services. Specifically, the IRS’ financial system can readily identify toll-free costs totaling over \$31 million.¹⁷ This figure is significantly lower than our estimate of \$627 million, as illustrated in Figure 2. The \$31 million captures only the

¹⁷ The \$31 million is primarily for telecommunication systems and services.

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costs directly attributable to the toll-free system. The IRS' current financial system does not associate direct labor and overhead costs with the toll-free telephone system because the IRS has not yet implemented a cost accounting system.

Figure 2: Costs Identified as "Toll-Free"(in millions)



Source: *The IRS and Treasury Inspector General for Tax Administration (TIGTA).*

Without full cost data:

- The taxpaying public does not have sufficient information to determine whether the value of the service is at least equal to the cost.
- Executive Branch decision-makers (including IRS managers), the Congress, and the IRS Oversight Board do not have sufficient information to make decisions about allocating resources, evaluating and improving program performance and comparing alternative courses of action.
- The IRS cannot meet the intent of GPRA to use cost as an indicator of performance or the requirement of a Federal accounting standard to provide the "full cost" of government services.

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IRS actions to address full costing

The IRS plans to address full costing over the next several years. Independent from our review, the IRS initiated action to obtain a new financial system that will track program costs. The system is scheduled for implementation in FY 2004.

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Appendix I

Detailed Objective, Scope, and Methodology

The objective of this review was to estimate the Internal Revenue Service's (IRS) cost for providing toll-free telephone service for Fiscal Year (FY) 2001. We performed this review as part of our ongoing coverage of the IRS' toll-free telephone operations.

We performed our review at the IRS' National Headquarters and the Headquarters Offices of: Agency-Wide Shared Services (AWSS); Modernization and Information Technology Services (MITS); the Small Business/Self-Employed (SB/SE) Division; and the Wage and Investment (W&I) Division. We also visited IRS offices in Cincinnati, OH, New Carrollton, MD, and Philadelphia, PA. We performed our review between December 2000 and July 2001 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

We relied on financial data provided by the IRS to develop our estimate of the full cost of toll-free telephone service.¹ We did not audit and do not express an opinion on the accuracy and reliability of the data. However, we discussed with IRS officials cost data that appeared to be unreasonable, was inconsistent with other data, or was unclear. The review neither evaluated the IRS' financial system nor compared the IRS' cost with other government or private sector toll-free telephone operation costs.

To accomplish our objective, we estimated the material costs associated with the toll-free telephone system for FY 2001.²

A. The Wage and Investment (W&I) Division

1. The W&I Division used tracing and allocating techniques to estimate:

- a. The cost of labor and support for coordinating the IRS toll-free telephone system, answering telephone calls, and reviewing the quality of the service provided to taxpayers.
- b. The cost of labor for W&I Division management activities such as strategic planning, finance, human resources, business systems planning, and management support of the toll-free system that was not otherwise accounted for.
- c. The cost of four contracts that provide services to the IRS for toll-free operations.

¹ See Appendix VI – Glossary of Terms.

² All estimates are for the entire FY 2001, unless otherwise noted.

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- d. The number of Full-Time Equivalents (FTEs)³ assigned to toll-free telephone service.
 - e. The Modernization and Information Technology Services (MITS) used the tracing technique to estimate the labor and support cost and the FTEs assigned to the W&I Division for the Customer Communications Project 2001, through June 11, 2001.
2. We discussed with W&I Division officials cost data that was unclear or inconsistent with other data.
- B. The Small Business/Self-Employed (SB/SE) Division
1. The SB/SE Division used tracing and allocating techniques to estimate:
 - a. The cost of labor and support for answering telephone calls.
 - b. The cost of labor and overhead for the Automated Referral System.⁴
 - c. The cost of labor and support for SB/SE Division management activities such as strategic planning, finance, human resources, business systems planning, and management support of the toll-free system that was not otherwise accounted for.
 - d. The number of FTEs assigned to toll-free telephone service.
 - e. The MITS used tracing to estimate the labor and support cost assigned to the SB/SE Division for the Customer Communications Project, through June 11, 2001.
 2. We discussed with SB/SE Division officials cost data that was unclear.
- C. Modernization and Information Technology Services (MITS)
1. The MITS used tracing and allocation techniques to estimate:
 - a. The cost of automatically receiving calls and directing calls for response.
 - b. The cost of four contracts for products and services provided by vendors.
 - c. The cost of labor and support for personnel involved with telecommunications.⁵

³ An FTE is a measure of labor hours. FTEs are the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees, divided by the number of compensatable hours applicable to each fiscal year. For Fiscal Year (FY) 2001, one (1) FTE equals 2080 hours.

⁴ This program handles complex questions about tax law that are answered by specialists rather than answered by Customer Service Representatives.

⁵ The IRS could not provide a complete estimate of the cost of MITS labor and support for its Telecommunications component due to the limitations of the IRS' financial systems.

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- d. The number of FTEs assigned to toll-free telephone service.
- e. The cost of the Customer Communications Project 2001:⁶
 - 1) The IRS' financial data was used to differentiate between costs for capital and non-capital items.
 - 2) We calculated depreciation for the capital expenditures as follows - Useful life: 5 years; Depreciation method: Straight-line; Convention for first and last years of use: Half-Year.⁷
 - 3) We estimated the cost for non-capital items.
- 2. We discussed with MITS officials cost data that appeared to be unreasonable, was inconsistent with other data, or was unclear.

D. Agency-Wide Shared Services (AWSS)

- 1. The AWSS used allocating and tracing techniques to estimate:
 - a. The cost of renting the facilities for toll-free telephone operations.
 - b. The cost of services shared by the IRS' workforce. Examples of these services are: personnel, procurement, Equal Employment Opportunity, finance, and education. We allocated a portion of the cost of these services to toll-free telephone service.
 - c. The cost of employee workstation furniture. The IRS provided the cost of employee workstation furniture used for toll-free telephone service that was installed between 1999 and 2001.
 - 1) We determined that the workstations were capital assets and, therefore, subject to depreciation. Depreciation was calculated using the following guidelines - Useful life: 7 years; Depreciation method: Straight-line; Convention for first and last years of use: Half-year.
 - 2) The number of FTEs assigned to toll-free telephone service.
- 2. We discussed with AWSS officials cost data that was inconsistent with other data or was unclear.

E. National Headquarters (NHQ)

- 1. The NHQ used tracing to provide an estimate of the total cost and FTEs for providing executive direction to national programs, and national leadership and oversight to field

⁶ The IRS could not provide an estimate of the cost of MITS' labor and support for the Customer Communications Project 2001 due to the limitations of the IRS' financial systems.

⁷ See Appendix VI, Glossary of Terms, for definitions of the depreciation terms.

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offices. The NHQ includes the Offices of the Commissioner, the Chief Financial Officer (CFO), and Strategic Human Resources.

- a. We used this estimate to allocate a percentage of the NHQ's cost to toll-free telephone service.
2. The NHQ used the tracing technique to estimate the cost of a contract for services provided by a vendor, and the portion of that cost that could be traced to toll-free telephone service.
3. We estimated the cost and FTEs for the entire IRS organization.
4. We determined the cost assigned to toll-free telephone service according to the IRS's financial system.
5. We discussed with NHQ officials:
 - a. Cost data that was unclear.
 - b. The methodology we used to accomplish our objective. NHQ officials provided feedback and guidance.

It is important to note that our coverage did not include the following costs:

- For restructuring the IRS.⁸
- For the systems used to research tax law or accounts in response to taxpayer questions received through toll-free telephone service.
- That appeared to be quantitatively not material as compared to the estimated overall cost of toll-free telephone service.⁹ Examples of these costs include office equipment such as copying machines and desk supplies.

⁸ See Appendix VI – Glossary of Terms.

⁹ See Appendix VI – Glossary of Terms.

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Appendix II

Major Contributors to This Report

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Frank Maletta, Auditor

Vincent Urciuoli, Auditor

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Appendix III

Report Distribution List

Commissioner, Small Business/Self-Employed Division S
Commissioner, Wage and Investment Division W
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Director, Customer Account Services, Wage and Investment Division W:CAS
Director, Joint Operations Center, Wage and Investment Division W:CAS:JOC
Director, National Headquarters Management and Finance N:ADC:M
Chief Financial Officer N:CFO
Acting Deputy Chief Financial Officer, Strategic Planning and Budgeting N:CFO:SPB
Acting Director, Financial Analysis N:CFO:F
Chief, Agency-Wide Shared Services A
Director, Real Estate and Facilities Management A:RE
Director, Office of Strategy and Finance A:F
Deputy Commissioner of Modernization / Chief Information Officer M
Acting Director, Telecommunications M:I:T
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Chief Counsel CC
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division S
 Commissioner, Wage and Investment Division W
 Chief, Agency-Wide Shared Services A
 Chief Information Officer M:I:R
 Office of the Chief Financial Officer N:CFO
 Director, National Headquarters Management and Finance N:ADC:M

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Appendix IV

Recent TIGTA Reports Related to Toll-Free Telephone Operations

Better GPRA Quantity Indicators Are Needed for Toll-Free Telephone Service

(Reference Number 2001-30-131, August 2001)

*Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its
Toll-Free Systems Was Not Satisfactory*

(Reference Number 2001-40-106, June 2001)

*The Performance of the Customer Service Toll-Free Telephone Program Needs Improvement to
Better Handle Millions of Taxpayer Calls*

(Reference Number 2001-40-0790, May 2001)

*Progress in Developing the Customer Communications Project Has Been Made, But Risks to
Timely Deployment in 2001 Still Exist*

(Reference Number 2001-20-055, March 2001)

*Management Advisory Report: Strategic Planning for Toll-Free Telephone Operations Has
Made Significant Progress, But Further Improvements Are Needed*

(Reference Number 2001-30-006, October 2000)

*Toll-Free Customer Satisfaction Survey Results Should Be Qualified if Used for the Government
Performance and Results Act*

(Reference Number 2000-10-137, September 2000)

The Toll-Free Telephone Filing Season Planning Process is Adequate

(Reference Number 2000-40-080, May 2000)

*Toll-Free Telephone Service Levels Declined in 1999 Despite Costly Efforts to Achieve World
Class Performance*

(Reference Number 2000-30-062, March 2000)

TIGTA Audit In Process Related to Toll-Free Telephone Operations

*Automated Referral Program Weaknesses Have Placed Customer Service Goal
Accomplishment at Risk*

(Audit Number 200130008)

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Appendix V

Statutes and Federal Directives Affecting Government Financial Systems

Statutes

I. The Chief Financial Officers (CFO) Act of 1990¹

The purposes of the CFO Act are to: (1) bring more effective general and financial management practices to the government (2) improve agency systems of accounting, financial management, and internal controls; and (3) provide for the production of complete, reliable, timely, and consistent financial information for use in the financing, management, and evaluation of Federal programs.

The CFO Act establishes: (1) a Deputy Director for Management in the Office of Management and Budget (OMB) to be the chief Federal official responsible for financial management; (2) an Office of Federal Financial Management, in OMB, headed by a Comptroller who is the deputy and principal advisor to the OMB Director for Management in carrying out his/her responsibilities under the CFO Act; and (3) a CFO and Deputy CFO in each executive department and in each major executive agency in the Federal Government.

The responsibilities of the CFOs include maintenance of an integrated agency accounting and financial management system that provides for: (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) the systematic measurement of performance. The Act does not elaborate on the meaning of systematic measurement of performance.

The Act requires major Federal departments to prepare annual financial statements according to OMB guidance and have them audited by the agency's Inspector General.

II. The Government Performance and Results Act of 1993 (GPRA)²

The purposes of the GPRA include: (1) improved planning and management of Federal programs; (2) increased accountability and better assessment of results; (3) improved communication with Congress and the public; (4) better information for Congressional and agency decisions; and (5) increased public confidence in the government.

The Act introduces a new set of reporting requirements into the budget process for each agency. The requirements center on: (1) a strategic plan that provides long-run strategic goals covering 5 or more years (and updated at least every 3 years); (2) an annual performance plan that derives

¹ Pub. L. No. 101-576, 104 Stat. 2838.

² Pub. L. No. 103-62, 107 Stat. 285.

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specific short-run performance goals from the long-run general goals in the strategic plan; and (3) an annual performance report that examines whether goals were met and what was accomplished with the resources expended.

In order to focus attention on managing for results, the GPRA and the OMB guidance for its implementation are quite specific about the concepts which should anchor planning and assessment. Performance assessments should report: (1) outputs, which are the immediately observable products of program activity (e.g., not teaching, but graduates); and (2) outcomes, which are the longer-term results for which a program is designed (e.g., not graduates, but graduates who obtain jobs).

There is a clear preference in the GPRA for the use of measures in the specification of goals and the assessment of outputs and outcomes. However, the GPRA provides that if an agency, in consultation with the Director of OMB, determines that it is not feasible to express performance goals for a particular program in an objective, quantifiable, measurable form, the Director of OMB may authorize an alternative form. The GPRA stipulates that the alternative form should include separate descriptive statements of a minimally effective program and a successful program with sufficient precision to allow for an accurate, independent determination of whether or not the agency's actual performance meets the criteria for a minimally effective program or a successful program. Agencies may also propose other alternative forms, or state why it is infeasible or impractical to express a performance goal in any form.

Agency strategic plans were due to Congress for the first time on September 30, 1997. Annual performance plans must accompany annual budget requests, starting with the Fiscal Year (FY) 1999 budget. The first annual performance report was for FY 1999 and was due to the Congress March 31, 2000.

III. The Government Management Reform Act of 1994 (GMRA)³

The purposes of the GMRA are to provide a more effective, efficient, and responsive government through a series of management reforms primarily for Federal human resources and financial management.

The Act requires for FY 1996 and each year after, that all major Federal departments and agencies prepare a financial statement covering all accounts and associated activities of each office, bureau, and activity of the agency. The statement should conform to OMB guidance, and it should be audited by the agency Inspector General. The statement should reflect: (1) the overall financial position of the offices, bureaus, and activities covered by the statement, including assets and liabilities thereof; and (2) the results of operations of those offices, bureaus, and activities.

The GMRA authorizes the OMB to consolidate and simplify the financial management reports that agencies are required to prepare and to adjust the frequency and due dates of the reports (after appropriate consultation with, and notification of, Congress).

³ Pub. L. No. 103-356, 108 Stat. 3410.

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The Act requires a government-wide financial statement, for FY 1997 and each year after, prepared by the Secretary of the Treasury in coordination with the Director of OMB, audited by the Comptroller General of the United States, and reflecting the overall financial position of the government, including assets, liabilities and results of operations.

IV. The Federal Financial Management Improvement Act of 1996 (FFMIA)⁴

The FFMIA addresses Congressional concerns that, although progress has been made in strengthening Federal internal accounting controls, Federal accounting standards have not been uniformly implemented and certain deficiencies persist.

The FFMIA notes that incorporation of Federal Accounting Standards Advisory Board (FASAB)⁵ concepts and standards into Federal financial management systems should enable agencies to produce cost and financial information that will assist the Congress and financial managers in evaluating the cost and performance of Federal programs and activities and thus facilitate improved decision-making.

Building on and complementing the CFO Act, the GPRA, and the GMRA, the Act provides for the establishment of uniform accounting systems, accounting standards, and accounting reporting systems in the Federal Government and for related purposes. It is intended to increase the capability of agencies to monitor the execution of their budgets by providing better support for the preparation of reports that compare spending of resources to results of activities.

The Director of OMB is required to submit a report to the Congress (by March 31 of each year) concerning the implementation of the Act, and agency Inspectors General and the Comptroller General are required to report to the Congress on compliance matters.

Examples of Federal Directives

The Statement of Federal Financial Accounting Concepts (SFFAC) Number 1 “Objectives of Federal Financial Reporting Statement of Federal Financial Accounting Concepts.” This document is a conceptual statement on the objectives of financial reporting by the Federal Government. It focuses on the uses, user needs, and objectives of such reporting. The objectives are designed to guide the FASAB in developing accounting standards to enhance the financial information reported by the Federal Government to: (1) demonstrate its accountability to internal and external users of Federal financial reports; (2) provide useful information to internal and external users of Federal financial reports; and (3) help internal users of financial information improve the government’s management.

⁴ Pub. L. No. 104-208, 110 Stat. 3001.

⁵ The Federal Accounting Standards Advisory Board considers and recommends accounting principles for the federal government. Included are statements of accounting standards, exposure drafts and interpretations of accounting standards, other reports, news, notices, and meeting agendas.

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The Statement of Federal Financial Accounting Standards (SFFAS) Number 4

“Managerial Cost Accounting Concepts and Standards for the Federal Government.” This SFFAS is aimed at providing reliable and timely information on the full cost of Federal programs, their activities, and outputs. The concepts of managerial cost accounting contained in this statement describe the relationship among cost accounting, financial reporting, and budgeting. Five standards set forth the fundamental elements of managerial cost accounting: (1) accumulating and reporting costs of activities on a regular basis for management information purposes; (2) establishing responsibility segments to match costs with outputs; (3) determining full costs of government goods and services; (4) recognizing the costs of goods and services provided among Federal entities; and (5) using appropriate methodologies to accumulate and assign costs to outputs.

OMB Circular No. A-127. This Circular provides policy for the Federal Government's financial management system. This policy is, in part, to facilitate efficient and effective delivery of programs through relating financial consequences to program performance.

The General Accounting Office's *Standards for Internal Control in the Government*. These standards state that internal control should provide reasonable assurance that the objectives of the agency are being achieved in terms of the effectiveness and efficiency of operations, including the use of the entity's resources.

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Appendix VI

Glossary of Terms

Activity - A set of tasks that the organization wants to cost or analyze as a group.

Automated Referral Program (R-Mail) - This program handles complex questions about tax laws that are answered by specialists rather than by Customer Service Representatives.

Benefit - The worth to customers, usually measured in dollars, of an activity, process, product, or service.

Budget - A projected amount of cost or revenue for an activity or an organizational unit covering a specific period of time; or any plan for the coordination and control of resources and expenditures.

Cost - The total amount of resources, measured in dollars, spent to make a product or deliver a service.

Cost Allocation or Allocation - The practice of assigning costs according to a formula, as opposed to directly tracing them to those activities, products, or services that consume these costs (see Traceable Cost).

Cost Assignment or Assignment - A process that identifies costs with activities or outputs. In a broad sense, costs can be assigned to processes, activities, organizational divisions, products, and services. There are three methods of cost assignment: (a) directly tracing costs wherever economically feasible, (b) cause-and-effect, and (c) allocating costs on a reasonable and consistent basis (See Cost Allocation, Traceable Cost).

Cross-functional process - A process that occurs in more than one organizational function, department or other major work unit.

Customer Communications Project 2001 - This project provides enhancements to the telephone infrastructure, such as upgrades in the method of distributing calls to Customer Service Representatives.

Customer Service Representative - An Internal Revenue Service (IRS) employee who may perform work on the telephones, as well as paper inventory resulting from telephone contacts.

Depreciation - The systematic and rational allocation of the acquisition cost of an asset, over its estimated useful life (see Half-Year Convention, Straight-line Method, and Useful Life).

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Financial System - An information system, comprised of one or more applications, that is used for any of the following: (1) collecting, processing, maintaining, transmitting, and reporting data about financial events; (2) supporting financial planning or budgeting activities; (3) accumulating and reporting cost information; or (4) supporting the preparation of financial statements.

Full Cost - The sum of (1) the costs of resources consumed by the business segments that contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities. Full costs include direct and indirect costs (see Overhead).

Full-Time Equivalent (FTE) - A measure of labor hours. FTEs are the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees, divided by the number of compensatable hours applicable to each fiscal year. For Fiscal Year 2001, one (1) FTE equals 2080 hours.

Half-Year Convention - Used in calculating depreciation (see Depreciation). All property placed into service or disposed of during a tax year is treated as being placed in service or disposed of at the midpoint of the tax year.

Labor Cost - Examples of these costs are salaries, benefits, overtime, premium pay, cash awards, and other compensation.

Material - Having real importance or great consequence. The determination of whether an item is material depends on the degree to which omitting information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission.

Meaningful - As used in this report: useful, relevant, timely, and reliable financial information.

Output - Any product or service generated from the consumption of resources. It can include information or paperwork generated by the completion of the tasks of an activity.

Overhead - Costs that cannot be assigned exclusively to any particular product, project, process, or activity.

Process - A set of logically related activities done to achieve a defined business outcome, such as produce a product or service.

Product - Any discrete, traceable or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources (see Service).

Resource - Equipment, facilities, people, supplies, or services used to produce a product or service.

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Restructuring - Altering the size, shape, work processes, and communications systems to meet new requirements or opportunities.

Service - An intangible product or task rendered directly to a customer (see Product).

Straight-line Depreciation - Used in calculating depreciation (see Depreciation). A way to figure depreciation for property that ratably deducts the same amount for each year in the recovery period.

Support Cost - Examples of these costs are advertising, rent or lease of office equipment, management and professional support services, training, and travel.

Toll-Free Telephone Numbers Included in the Review -

800-829-1040	For tax law inquiries, with the opportunity to speak with a Customer Service Representative
800-829-4477	For automated assistance with tax law inquiries
800-808-4262	For inquiries about the status of tax refunds and the Earned Income Credit
800-829-8815	For questions regarding notices, letters, or bills received from the IRS

Traceable Cost or Traceability - A cost that can be assigned to a specific activity by identifying or observing specific resources consumed by the activity.

Useful Life - Used in calculating depreciation. An estimate of how long an item of property can be expected to be usable in trade or business or to produce income (see Depreciation).